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## Reserve Funds for Homeowners

### (Retirement Housing and Extra Care)

A reserve fund is a sum of money which is held by the Landlord to fund major works at the estate. Collections into the fund are usually made through the service charge or in some cases by payment of exit fees when a property is sold.

Your individual lease will tell you what reserves may be used for and Hanover cannot use the reserve fund unless the lease permits this. We must consult you if we wish to spend money from your fund where this is above £250.00 per property. (Section 20

### Landlord and Tenant Act 1985

The obligation to pay into a reserve fund is detailed in your lease and this is transferrable from one resident to the next. A healthy reserve fund is an asset to your property because prospective buyers are assured a fund exists to pay for major works in future. Where an estate cannot demonstrate that they have sufficient funding to pay for future works, in some cases, sales prices have been reduced. If works are required at a time when a fund has insufficient balances individual residents are obliged to pay any outstanding sum.

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## **How are funds held?**

The law requires that funds should be held in a trust account by a private landlord. Even though Hanover is a Registered Social Landlord and thus exempt from this requirement, we hold funds in trust as a matter of good practice.

Trust funds attract interest and there is a requirement to pay tax. There are restrictions placed on trust fund accounts and how they may be managed and funds invested these are detailed in the ARHM Code of Practice.

## **What happens when a property is sold?**

When a sale completes a share of the balance of the fund is assigned to the next purchaser. There can be a financial benefit associated with an estate having access to a healthy reserve fund. If a resident is attempting to sell their home without such access a new buyer would be advised to act cautiously as they may have to pay increased costs to fund necessary works in future.

## **How does Hanover calculate the contribution needed?**

Hanover has to show that we meet certain standards when collecting into reserves.

- Payments made into a reserve account must allow for the actual life expectancy of each item, future cost of renewal and frequency of replacement.

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- We must plan ahead to avoid undue fluctuation (as above) and explain this to residents each year.
  - We must demonstrate that we are aware of the lifecycles of each building component
  - We should illustrate when items are due for replacement and compare this with the fund balances projected over future years
  - We should collect monies in annual instalments to spread costs over a number of years.
  - Ensure that the costs we use are reasonably accurate estimates and update them annually.

We have completed a Stock Condition Survey for every estate that we manage and this provides us with information about what works are likely to be needed and when. Each year we review the works that may be needed against the balance within the fund and we present residents with a cashflow statement.

This statement will show works likely to be needed over the next 30 years and the estimated costs. It is sometimes necessary to change planned years for works if the item itself does not need to be replaced. We will talk to you about the fund each year and advise you straight away if we feel that there is a need to review the sum being collected. Any proposals to review fund contributions will be considered in the context of ALL expenditure required from the fund. Lifecycles are used for guidance only.

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## **What happens if the fund has a low balance?**

Hanover will always seek to ensure that a reserve fund is adequately resourced to pay for work over the next five year period. Where this is not the case, then Hanover will increase the amount which residents are asked to contribute in a manner which may need to be robust. Hanover will apply to an LVT (Leasehold Valuation Tribunal) for a final decision where full and convincing information has been supplied to residents but agreement cannot be reached.

We will ensure that there will be sufficient funds held on reserve for at least 5 years from the date information is presented.